An ATCO Company

CU INC.
ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2017

MARCH 2, 2018

This Annual Information Form (AIF) is meant to help readers understand the business and operations of CU Inc. (our, we, us, or the Company).

Unless otherwise noted, the information contained within this AIF is presented as at December 31, 2017.

The Company is controlled by Canadian Utilities Limited, which in turn is controlled by ATCO Ltd. and its controlling share owners, Sentgraf Enterprises Ltd. and the Southern family.

Terms used throughout this AIF are defined in the Glossary at the end of this document.

TABLE OF CONTENT

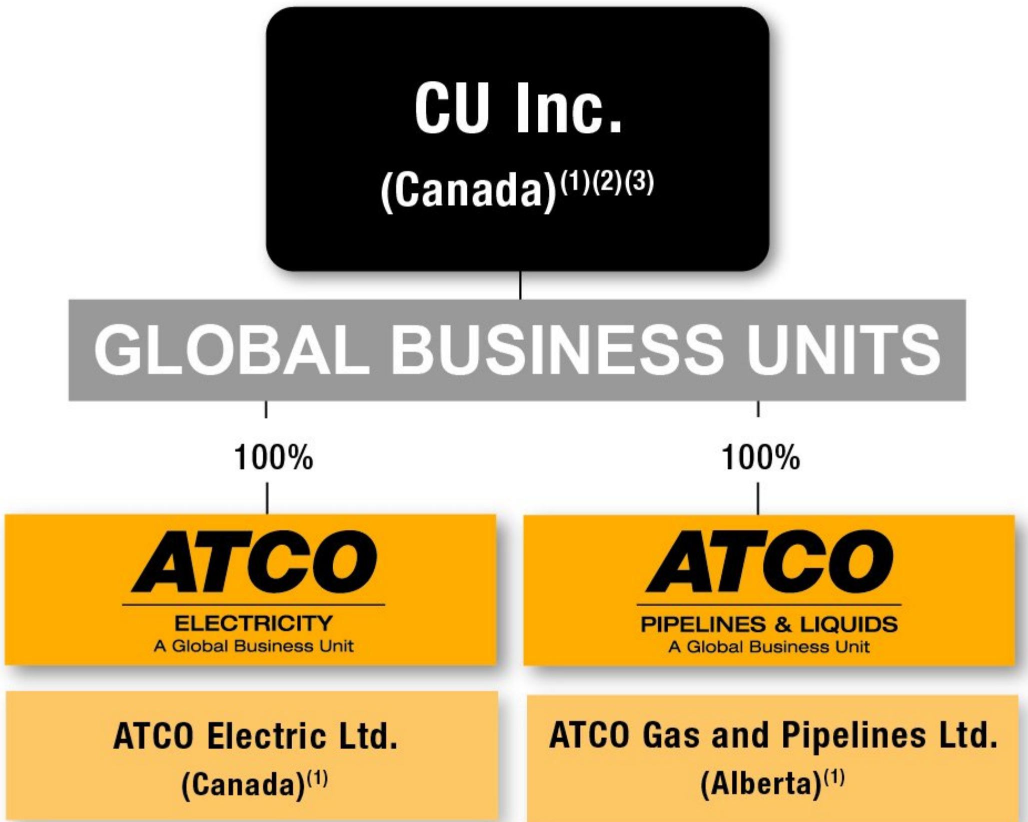
CORPORATE STRUCTURE

CU Inc. (the Company) was incorporated under the laws of Canada on March 12, 1999. The address of the head office and registered office of the Company is 4th Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4.

SIMPLIFIED INTERCORPORATE RELATIONSHIPS

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with approximately 4,100 employees and assets of $16 billion comprised of rate-regulated utility operations in natural gas and electricity distribution and transmission. More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

The following chart includes the names of the Company's principal Business Units, as well as the principal subsidiaries comprising the Business Units, and the jurisdictions in which they were incorporated. The chart also shows the percentages of such subsidiaries' shares the Company beneficially owns, controls or directs, either directly or indirectly.



(1) Jurisdiction in which the company was incorporated.

(2) The Company owns all of the voting and non-voting shares of the subsidiaries.

(3) The organizational chart does not include all of the subsidiaries of the Company. The assets and revenues of excluded subsidiaries in the aggregate did not exceed 20 per cent of the total consolidated assets or total consolidated revenues of the Company as at December 31, 2017.

BUSINESS DESCRIPTION

The activities of the Company are conducted through the Utilities' regulated businesses in two Business Units within Western and Northern Canada: Electricity, which includes ATCO Electric Distribution and ATCO Electric Transmission, and Pipelines & Liquids, which includes ATCO Gas and ATCO Pipelines.

ELECTRICITY BUSINESS UNIT

OVERVIEW

Electricity's activities are conducted through two regulated businesses, ATCO Electric Distribution and ATCO Electric Transmission. Together these two business operations provide regulated electricity distribution and transmission by ATCO Electric and its subsidiaries, Northland Utilities (Yellowknife) Limited (NUY), Northland Utilities Limited (NWT), and ATCO Electric Yukon (AEY).

ATCO ELECTRIC

The activity areas in which ATCO Electric Distribution and ATCO Electric Transmission operate in Western and Northern Canada are shown in the map below.

ATCO Electric transmits and distributes electricity to 241 communities and rural areas in east-central and northern Alberta. Among those served are the communities of Drumheller, Lloydminster, Grande Prairie and Fort McMurray as well as the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River.

ATCO Electric is headquartered in Edmonton and has 38 offices throughout its service area. Electric utility service is also provided to three communities in Saskatchewan. ATCO Electric Yukon (AEY) serves 19 communities in the Yukon Territory, including the capital city of Whitehorse, and one community in British Columbia. Northland Utilities is an equal partnership between ATCO Ltd. and Denendeh Investments Incorporated, which represents the 27 Dene First Nations of the Northwest Territories. Northland Utilities has two operating divisions: Northland Utilities (NWT) Limited and Northland Utilities (Yellowknife) Limited (NUY). NUY and NWT serve nine communities in the Northwest Territories, including the capital city of Yellowknife.

Approximately 631,000 people live in the principal markets for electric utility service by ATCO Electric and its subsidiaries NUY, NWT and AEY. Service is provided to approximately 256,000 customers. ATCO Electric has been assigned about 65 per cent of the designated service area within Alberta. This service area contains approximately 14 per cent of the provincial electrical load and 14 per cent of the population.

The number of customers served by ATCO Electric, NUY, NWT and AEY at the end of 2017 and 2016 is shown below.

		2017		**2016**
	Number	**%**	**Number**	**%**
Industrial	**10,520**	**4**	10,668	5
Commercial	**34,333**	**14**	34,221	13
Residential	**179,639**	**70**	179,525	70
Rural, REA and other	**31,851**	**12**	31,661	12
Total	**256,343**	**100**	256,075	100

Electricity distributed to the various classes of customers in 2017 and 2016 is shown below.

		2017		**2016**
	GWh	**%**	**GWh**	**%**
Industrial	**7,657**	**64**	7,448	64
Commercial	**2,434**	**20**	2,393	20
Residential	**1,316**	**11**	1,292	11
Rural, REA and other	**554**	**5**	526	5
Total	**11,961**	**100**	11,659	100

ATCO Electric, NUY, NWT and AEY own and operate extensive electricity transmission and distribution systems. The systems consist of approximately 11,000 km of transmission lines and 72,000 km of distribution lines. In addition, ATCO Electric delivers power to and operates approximately 4,000 km of distribution lines owned by Rural Electrification Associations (REA).

ATCO Electric, NUY, NWT and AEY own and operate 26 diesel, natural gas turbine and hydro-generating plants, with an aggregate nameplate capacity of 62 MW in Alberta, the Yukon and Northwest Territories. The maximum peak load demand for these plants during 2017 was 29 MW.

ATCO Electric, AEY, NUY and NWT distribute electricity to incorporated communities under the authority of franchises or by-laws. In rural areas, electricity is distributed by approvals, permits or orders under applicable statutes.

The franchises under which service is provided in incorporated communities in Alberta and the Northwest Territories have been granted for up to 20 years. These franchises are exclusive to ATCO Electric, NUY or NWT and are renewable by agreement. If any franchise is not renewed, it remains in effect until either party, with the approval of the regulatory authority, terminates it on six months written notice.

On termination of a franchise, the municipality may purchase the facilities used under that franchise at a price to be agreed on or, failing agreement, to be fixed by the regulatory authority. The franchise under which service is provided in the Yukon Territory was granted under the Public Utilities Act (Yukon Territory) and has no set expiry date.

Under the Electric Utilities Act (Alberta) (EUA), wholesale tariffs for electricity transmission must be approved by the Alberta Utilities Commission (AUC). Transmission tariffs allow any owner of a generating unit to access the Alberta transmission system and thus facilitate the sale of its power. The same transmission tariff is charged to each distribution utility or customer directly connected to the transmission system, regardless of location.

Transmission costs are equalized by having each owner of transmission facilities charge its costs to the Alberta Electric System Operator (AESO). The AESO then aggregates these costs and charges a common transmission rate to all transmission system users.

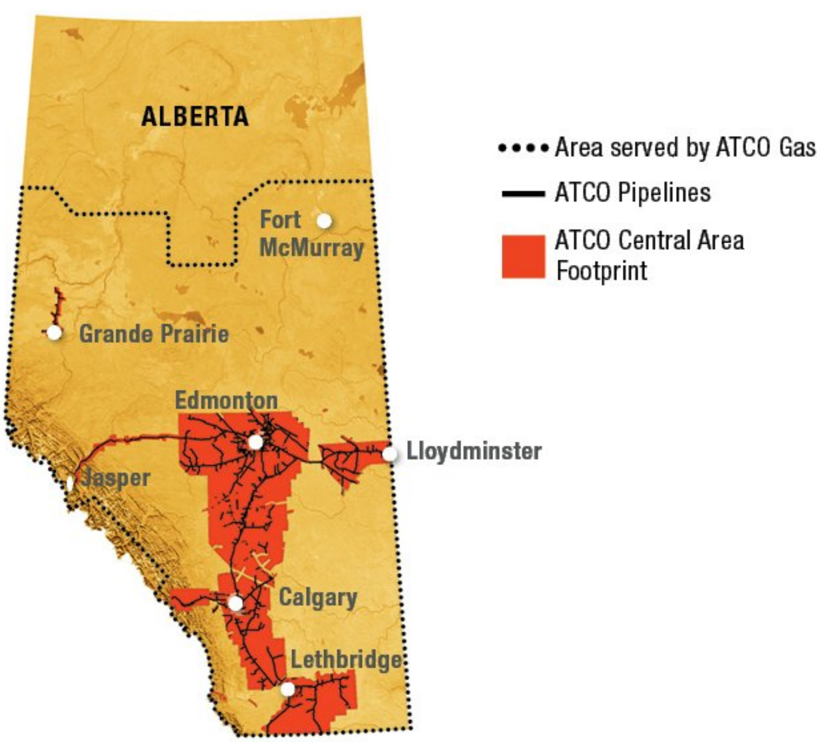
The Transmission Regulation under the EUA stipulates that new transmission projects will be assigned to transmission facility owners based on the service areas of the distribution companies they have been historically affiliated with. Facilities ownership will change at service area boundaries, except where, in the AESO's opinion, only a small portion of the project is in another service area. This rule applies to all transmission projects except inter-provincial inter-tie projects and those deemed "critical" by the Government of Alberta.

PIPELINE & LIQUIDS BUSINESS UNIT

OVERVIEW

Pipelines & Liquids activities are conducted through (i) regulated natural gas distribution by ATCO Gas, a division of ATCO Gas and Pipelines Ltd. (AGP) and (ii) regulated natural gas transmission by ATCO Pipelines, a division of AGP.

The following map shows the areas served by ATCO Gas and ATCO Pipelines in Alberta.



ATCO GAS

ATCO Gas distributes natural gas throughout Alberta and in the Lloydminster area of Saskatchewan and serves approximately 1.2 million customers in nearly 300 Alberta communities. Headquartered in Edmonton, it has more than 70 district offices across the province. ATCO Gas services municipal, residential, business and industrial customers.

ATCO Gas' principal markets for distributing natural gas are in Edmonton, Calgary, Airdrie, Fort McMurray, Grande Prairie, Lethbridge, Lloydminster, Red Deer, Spruce Grove, St. Albert and Sherwood Park. These communities have a combined population of approximately 2.8 million. Approximately 75 per cent of ATCO Gas' customers were located in these 11 communities in 2017. Also served are 279 smaller communities as well as rural areas with a combined population of approximately 752,000.

The number of customers served by ATCO Gas at the end of 2017 and 2016 is shown below.

		2017		2016
	Number	%	Number	%
Residential	**1,100,625**	**92**	1,085,731	92
Commercial	**98,123**	**8**	96,978	8
Industrial	**347**	**–**	346	–
Other	**3**	**–**	5	–
Total	**1,199,098**	**100**	1,183,060	100

The quantities of natural gas distributed by ATCO Gas in 2017 and 2016 is shown below.

		2017		2016
	PJ	%	PJ	%
Residential	**124.9**	**48**	111.3	47
Commercial	**122.4**	**47**	112.0	48
Industrial	**13.1**	**5**	12.6	5
Other	**0.3**	**–**	0.2	–
Total	**260.7**	**100**	236.1	100

ATCO Gas owns and operates approximately 41,000 km of distribution mains. It also owns service and maintenance facilities in major centres in Alberta.

ATCO Gas distributes natural gas in incorporated communities under the authority of franchises or by-laws and in rural areas under approvals, permits or orders issued through applicable statutes. It currently has 167 franchise agreements with communities throughout Alberta. These franchise agreements detail the rights granted to ATCO Gas and its obligations to deliver natural gas services to consumers in the municipality.

All franchises are exclusive to ATCO Gas and are renewable by agreement for additional periods of up to 20 years. If any franchise is not renewed, it remains in effect until either party, with the approval of the prevailing regulatory authority, terminates it on six months written notice. On termination, the municipality may purchase the facilities used in connection with that franchise at a price to be agreed on or, failing agreement, to be fixed by the prevailing regulatory authority.

In Edmonton, distribution of natural gas is carried on under the authority of an exclusive franchise. ATCO Gas has a 20-year franchise agreement with Edmonton that will expire on July 21, 2030. The franchises under which service is provided in other incorporated communities in Alberta have been granted for up to 20 years.

In Calgary, distribution of natural gas operates under a municipal by-law. The rights of ATCO Gas under this by-law, while not exclusive, are unrestricted as to term. The by-law does not confer any right for Calgary to acquire the facilities used in providing the service.

ATCO PIPELINES

ATCO Pipelines owns and operates natural gas transmission pipelines and facilities in Alberta. The business receives natural gas on its pipeline system from various gas processing plants as well as from connections with other natural gas transmission systems, and transports the gas to end users within the province such as local distribution utilities and industrial customers, or to other transmission pipeline systems, primarily for export out of the province.

ATCO Pipelines owns and operates an extensive natural gas transmission system. The system currently consists of approximately 9,400 km of pipelines, 16 compressor sites, approximately 3,500 receipt and delivery points, and a salt cavern storage peaking facility near Fort Saskatchewan, Alberta. The system has 190 producer receipt points, one interconnection with Alliance Pipeline, and one interconnection with Many Islands Pipelines. Peak delivery capability of the ATCO Pipelines system is 3.7 billion cubic feet per day.

The Alberta System Integration Agreement entered into by ATCO Pipelines and NOVA Gas Transmission Ltd. (NGTL) in 2009 resulted in a single rate and services structure for gas transmission in Alberta. Since October 2011, natural gas transportation rates in Alberta are based on the ATCO Pipelines cost-of-service approved by the AUC plus the NGTL cost-of-service approved by the National Energy Board (NEB). The agreement also required ATCO Pipelines and NGTL to swap ownership of certain physical assets intended to establish distinct operating areas for ATCO Pipelines and NGTL. The asset swap was completed in 2016.

PERFORMANCE SUMMARY

COMPARISON OF REVENUES AND ADJUSTED EARNINGS

The Utilities contribution to the Company's consolidated revenues and adjusted earnings is shown in the charts below.

Revenues [1]	2017		2016	
	($ millions)	%	($ millions)	%
Electricity	**1,273**	**48**	1,370	53
Pipelines & Liquids	**1,355**	**52**	1,203	47
Intersegment Eliminations	**(2)**	–	–	–
Total	**2,626**	**100**	2,573	100

Consolidated revenues of $2,626 million in 2017 were $53 million higher compared to 2016. Increased revenues are mainly due to continued capital investment and rate base growth.

Adjusted Earnings [1] [2]	2017		2016	
	($ millions)	%	($ millions)	%
Electricity	**330**	**61**	317	63
Pipelines & Liquids	**212**	**39**	184	37
Total	**542**	**100**	501	100

(1) The above data has been extracted from Note 3 (Segmented Information) of the consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS). The reporting currency is the Canadian dollar.

(2) Adjusted earnings are defined as earnings attributable to Class A and Class B shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities, dividends on equity preferred shares of the Company, and unrealized gains or losses on mark-to-market forward commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Consolidated adjusted earnings of $542 million in 2017 were $41 million higher compared to 2016. Increased adjusted earnings in 2017 were mainly due to continued capital investment and growth in rate base.

COMPARISON OF CAPITAL EXPENDITURES

The Utilities contribution to the Company's consolidated capital expenditures is shown below.

	2017 [1] [2]		2016 [1] [2]	
	($ millions)	%	($ millions)	%
Electricity	**438**	**40**	470	44
Pipelines & Liquids	**669**	**60**	588	56
Total	**1,107**	**100**	1,058	100

(1) The above data has been extracted from Note 3 (Segmented Information) of the consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS). The reporting currency is the Canadian dollar.

(2) The additions of property, plant and equipment included $17 million of interest capitalized (2016 - $18 million).

Total capital expenditures of $1,107 million in 2017 were $49 million higher than the $1,058 million reported in 2016. Of the $438 million invested in Electricity, $227 million, or 52 per cent, was on the distribution operations of ATCO Electric. Of the $669 million invested in Pipeline & Liquids, $372 million, or 56 per cent, pertained to the ATCO Gas.

THREE YEAR HISTORY

Summarized below are major events that occurred in the Company and the significant conditions that influenced the Company's development during the past three years.

ELECTRICITY BUSINESS UNIT

CAPITAL EXPENDITURES

Total capital expenditures for Electricity in the last three years is provided in the table below.

				Year Ended December 31
($ millions)	**Total**	**2017**	**2016**	**2015**
ATCO Electric Distribution	849	**227**	267	355
ATCO Electric Transmission	885	**211**	203	471
Total	1,734	**438**	470	826

Electricity's total capital expenditures over the last three years amounted to $1.7 billion. The largest expenditures were in the ATCO Electric Transmission mainly due to the replacement of aging infrastructure, system upgrades, and growth projects for new customers.

In addition to the continued investment to utility infrastructure in Alberta, the financial results of ATCO Electric have also been influenced by several regulatory decisions. The regulatory decisions are described in the "Regulatory Developments" section in the Company's Management's Discussion and Analysis (MD&A) and are incorporated herein by reference. The MD&A may be found on SEDAR at www.sedar.com.

Eastern Alberta Transmission Line (EATL)

In December 2015, ATCO Electric Transmission completed and placed in-service the longest transmission line in Alberta's history. The 500-kV high voltage direct-current transmission line, with its associated converter stations and facilities, extends approximately 485 km along a corridor on the east side of the province between Edmonton and Calgary. The $1.8 billion EATL Project is a critical component of Alberta's electrical transmission backbone and will play a key role in bringing renewable energy to Albertans across the province. By reducing the amount of electricity lost during transmission, EATL reduces the amount of power generation required, saving money as well as thousands of tons of future greenhouse gas emissions for Albertans.

PIPELINES & LIQUIDS BUSINESS UNIT

CAPITAL EXPENDITURE

Total capital expenditure for Pipelines & Liquids in the last three years is provided in the table below.

				Year Ended December 31
($ millions)	**Total**	**2017**	**2016**	**2015**
ATCO Gas	1,039	**372**	336	331
ATCO Pipelines	806	**297**	252	257
Total	1,845	**669**	588	588

Pipelines & Liquids' total capital investment over the last three years amounted to $1.8 billion. The largest expenditures were in the AUC-approved Urban Pipeline Replacement (UPR) program and ATCO Gas' Mains Replacement Program. Continued investment in utility infrastructure in Alberta has been a primary driver of an overall upward trend in earnings in the last three years.

In addition to the continued investment to utility infrastructure in Alberta, the financial results of Pipelines & Liquids have also been influenced by several regulatory decisions. The regulatory decisions are described in the "Regulatory Developments" section in the Company's Management's Discussion and Analysis (MD&A) and are incorporated herein by reference. The MD&A may be found on SEDAR at www.sedar.com.

Urban Pipeline Replacement Program

The Urban Pipelines Replacement (UPR) project is replacing and relocating aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth. Construction is expected to be complete in 2020 and the total cost of the UPR project is estimated to be $850 million. Natural gas distribution and natural gas transmission invested $205 million in the UPR project in 2017 and $653 million since the program's inception.

Plastic Mains Replacement Program

The Plastic Mains Replacement program within ATCO Gas is a 20-year program aimed at replacing polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe. The pipe has been identified for replacement due to risks associated with brittle cracking. Overall, approximately 8,000 km of main gas line, impacting roughly 27,500 services, will be replaced. The program began in 2011 with a target completion date of no later than 2030. Natural gas distribution replaced 286 km of plastic pipe in 2017 and 1,727 km since the program's inception.

Steel Mains Replacement Program

ATCO Gas has 9,000 km of steel pipe which it continues to replace as it identifies pipe at the end of its useful life. The pipe that is being replaced is generally more than 60 years old and a portion of this pipe is replaced every year. ATCO Gas will see an increase in this required replacement activity as the steel mains age. Natural gas distribution replaced 57 km of steel pipe in 2017 and 288 km since the program's inception.

REGULATORY DEVELOPMENTS

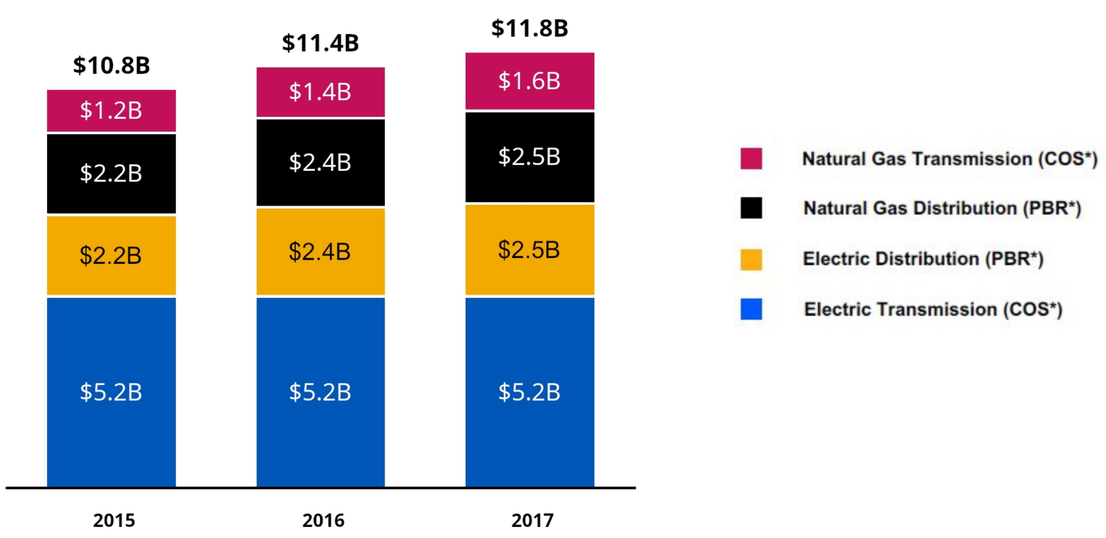
REGULATED BUSINESS MODELS

The business operations of electric distribution, electric transmission, natural gas distribution and natural gas transmission are regulated mainly by the AUC. The AUC administers acts and regulations covering such matters as rates, financing and service area.

Natural gas transmission and electric transmission operate under a cost of service regulation. Under this model, the regulator establishes the revenues to provide for a fair return on utility investment using mid-year calculations of the total investment less depreciation, otherwise known as Mid-Year Rate Base. Growth in Mid-Year Rate Base is a leading indicator of the business' earnings trend, depending on the equity ratio of the Mid-Year Rate Base and the Rate of Return on Common Equity.

Natural gas distribution and electric distribution operate under performance based regulation (PBR). Under PBR, revenue is determined by a formula that adjusts customer rates for inflation and expected productivity improvements. The AUC reviews the utilities' results annually to ensure the rate of return on common equity is within certain upper and lower boundaries. To do these calculations, the AUC reviews Mid-Year Rate Base. For this reason, growth in Mid-Year Rate Base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs based mainly on the formula that adjusts rates for inflation and productivity improvements.

Utilities Mid-Year Rate Base



** COS means Cost of Service Regulation; PBR means Performance Based Regulation*

GENERIC COST OF CAPITAL (GCOC)

On July 5, 2017, the AUC established a full proceeding schedule for a 2018, 2019 and 2020 GCOC proceeding. Submissions were filed October 31, 2017 with a hearing set for March 2018. The AUC has indicated its intention to issue a decision prior to the end of 2018.

The following table contains the ROE and deemed common equity ratios resulting from the most recent GCOC decisions. The information reflects the most recent amending or varying orders issued after the original decision date. The table also contains the mid-year rate base for each Alberta utility.

	Year	AUC Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
Electric Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**2,476 (4)**
	2016	2016 GCOC (3)	8.30	37.0	2,361 (5)
	2015	2013 GCOC (6)	8.30	38.0	2,228 (5)
Electric Transmission	**2017**	**2016 GCOC (3)**	**8.50 (7)**	**37.0**	**5,227 (8)**
	2016	2016 GCOC (3)	8.30 (7)	37.0	5,236 (5)
	2015	2013 GCOC (6)	8.30	36.0	5,198 (5)
Natural Gas Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**2,537 (4)**
	2016	2016 GCOC (3)	8.30	37.0	2,369 (5)
	2015	2013 GCOC (6)	8.30	38.0	2,189 (5)
Natural Gas Transmission	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**1,633 (9)**
	2016	2016 GCOC (3)	8.30	37.0	1,407 (5)
	2015	2013 GCOC (6)	8.30	37.0	1,206 (5)

(1) Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

(2) The common equity ratio is the portion of rate base considered to be financed by common equity.

(3) The AUC released its GCOC decision for the periods 2016 to 2017 on October 7, 2016.

(4) The mid-year rate base for 2017 is based on the 2018 to 2022 PBR Rebasing Application filed on August 16, 2017 and includes estimated mid-year work in progress of $86 million for Electric Distribution and $73 million for Natural Gas Distribution.

(5) The mid-year rate base for 2015 and 2016 is based on the Rule 005 Actuals Package and includes mid-year work in progress.

(6) The ROE and common equity ratio were based on the AUC GCOC decision of March 23, 2015.

(7) The ROE and common equity ratio for Electric Transmission were approved on an interim basis on October 7, 2016, and were approved on a final basis on December 16, 2016.

(8) The mid-year rate base for 2017 is based on the 2018 to 2019 GTA application filed on June 16, 2017 and includes mid-year work in progress.

(9) The mid-year rate base for 2017 is based on the 2017 to 2018 General Rate Application filed on October 2, 2017 and includes mid-year work in progress.

NEXT GENERATION OF PERFORMANCE BASED REGULATION

On December 16, 2016, the AUC released its decision on the second generation PBR plan framework for electricity and natural gas distribution utilities in Alberta. Under the 2018 to 2022 second generation PBR framework, utility rates will continue to be adjusted by a formula that estimates inflation annually and assumes productivity improvements. The framework also contains modified provisions for supplemental funding of capital expenditures that are not recovered as part of the base inflation less productivity formula. On February 5, 2018, the AUC released a regulatory decision that provides determinations for the going-in rates and incremental capital funding for the second generation of PBR.

The following table compares the key aspects of the PBR First Generation with the PBR Second Generation based on the AUC's February 5, 2018 decision.

	PBR First Generation	PBR Second Generation
Timeframe	2013 to 2017	2018 to 2022
Inflation Adjuster (I Factor)	Inflation indexes (AWE and CPI) adjusted annually	Inflation indexes (AWE and CPI) adjusted annually
Productivity Adjuster (X Factor)	1.16%	0.30%
O&M	Based on approved 2012 forecast O&M levels; inflated by I-X thereafter over the PBR term	Based on the lowest annual actual O&M level during 2013-2016, adjusted for inflation, growth and productivity to 2017 dollars; inflated by I-X thereafter over the PBR term
Treatment of Capital Costs	• Recovered through going-in rates inflated by I-X • Significant capital costs not fully recovered by the I-X formula and meeting certain criteria recovered through a K Factor	• Recovered through going-in rates inflated by I-X and a K Bar that is based on inflation adjusted average historical capital costs for the period 2013-2016. The K Bar is calculated annually and adjusted for the actual WACC • Significant capital costs that are extraordinary, not previously incurred and required by a third party recovered through a "Type I" K Factor
ROE Used for Going-in Rates	8.75%	• 8.5% • + 0.5% ROE ECM achieved from PBR First Generation added to 2018 and 2019
Efficiency Carry-over Mechanism (ECM)	ECM up to 0.5% additional ROE for the years 2018 and 2019 based on certain criteria	ECM up to 0.5% additional ROE for the years 2023 and 2024 based on certain criteria
Reopener	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year
ROE Used for Reopener Calculation	2013 to 2016: 8.3% 2017: 8.5%	8.5% Placeholder At approved ROE pending future GCOC

ALBERTA UTILITIES REGULATORY DEVELOPMENTS

Utility Asset Disposition

On October 11, 2017, the Alberta Department of Energy commenced its Utility Asset Disposition Stakeholder Engagement process to review the allocation of gains and losses associated with utility assets that are no longer used or useful for utility service. This includes assets that are sold to third parties, transferred to non-utility use, or stranded by unforeseen events or obsolescence. Following the engagement process, a policy recommendation will be made to the Government of Alberta with any legislative changes expected be made in the spring of 2018.

ELECTRIC TRANSMISSION REGULATORY DEVELOPMENTS

ATCO Electric Transmission 2013 to 2014 Deferral Accounts Application

On September 20, 2017, the AUC issued a decision on Electric Transmission's 2013 to 2014 Deferral Accounts Application. The application included $824 million of capital expenditures for the 35 direct-assigned AESO projects that went into service in 2013 and 2014. While the decision approved the inclusion of the vast majority of the capital expenditures into rate base, it resulted in a decrease to third quarter 2017 adjusted earnings of $7 million, mainly due to lower taxes that will be refunded to customers, all of which related to years prior to 2017.

ATCO Electric Transmission 2015 to 2017 General Tariff Application (GTA)

Review and Variance

On March 16, 2017, the AUC issued a decision on the Review and Variance Application relating to the 2015 to 2017 GTA. The application requested that the AUC review and vary the 2015 to 2017 GTA decision findings for severance costs, line insurance, head office allocations, 2015 capital maintenance costs and 2013-2014 tax deductions. While the decision denied the review and vary request for the tax deductions, line insurance and head office allocations, the AUC agreed with our positions on 2015 capital maintenance costs and a variety of calculation errors. The impact of this decision was an increase to first quarter 2017 adjusted earnings of $3 million, most of which related to prior years.

Compliance Filing

On June 19, 2017, the AUC issued a decision on Electric Transmission's Compliance Filing relating to its 2015 to 2017 GTA. The decision adjusted Electric Transmission's 2016 and 2017 forecast allocation of labour costs between operating and maintenance expense and capital, which resulted in a decrease to second quarter 2017 adjusted earnings of $7 million, of which $6 million related to prior years.

ATCO Electric Transmission 2018 to 2019 General Tariff Application (GTA)

On June 16, 2017, Electric Transmission filed a GTA for its operations for 2018 and 2019. The application requests, among other things, additional revenues to recover higher depreciation, operating costs and financing associated with increased rate base in Alberta. The application also requests approval to refund amounts collected from 2013-2016 for Construction Work in Progress (CWIP), which will result in a reduction in applied-for revenues for 2018 and 2019 as compared to 2017. This request, if approved, will also result in an increase to 2018 and 2019 rate base of approximately $130 million per year. On December 18, 2017, the AUC issued its decision on the interim tariff for 2018 which set an interim tariff based on a continuation of the 2017 revenue requirement. The proposed CWIP in rate-base refund will be addressed with the final approved tariff. This decision is expected in the fourth quarter of 2018.

Electric Transmission Asset Utilization Proceeding

On June 20, 2017, the AUC publicly announced its intention to commence a proceeding to consider the issue of asset utilization for electric transmission infrastructure, and how the corporate and property law principles referenced in the 2013 Utility Asset Disposition decision may relate. The AUC has not yet commenced this proceeding.

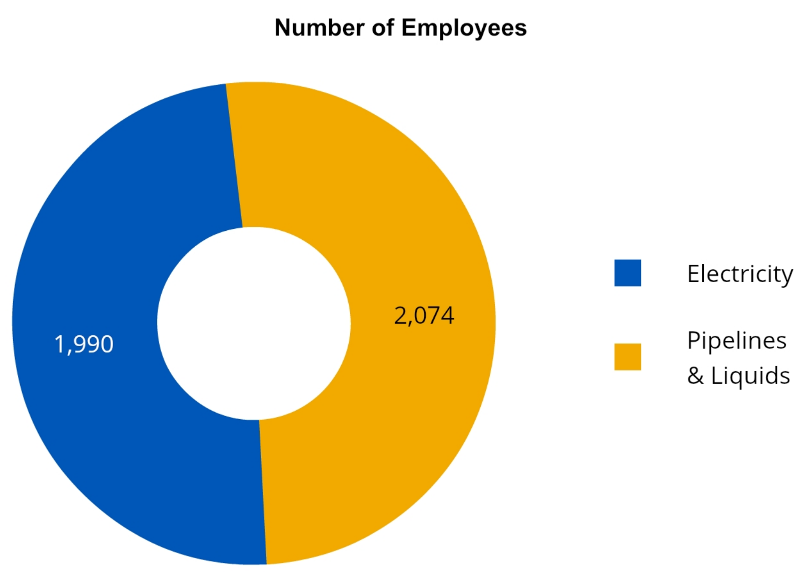
NATURAL GAS TRANSMISSION REGULATORY DEVELOPMENTS

ATCO Pipelines 2017 to 2018 General Rate Application (GRA)

On August 29, 2017, ATCO Pipelines received a decision from the AUC regarding its 2017 to 2018 GRA. The decision largely approved the application as filed, with the exception of some changes to property, plant and equipment depreciation rates. ATCO Pipelines rates are in place on a prospective basis until the end of 2018.

EMPLOYEE INFORMATION

At December 31, 2017, the Company had 4,064 employees. The accompanying chart represents the employee numbers in each segment.



SUSTAINABILITY, CLIMATE CHANGE AND THE ENVIRONMENT

Sustainability, Climate Change and the Environment is described in the Sustainability, Climate Change and the Environment section in CU Inc.'s MD&A and are incorporated herein by reference. The MD&A may be found on SEDAR at www.sedar.com.

BUSINESS RISKS

Business risks are described in the Business Risks and Risk Management sections in CU Inc.'s MD&A and are incorporated herein by reference. The MD&A may be found on SEDAR at www.sedar.com.

DIVIDENDS

Cash dividends declared during the past three years for all series and classes of shares were as follows.

(Canadian dollars per share)	Date of Issue	2017	2016	2015
Series Preferred Shares				
Series 1	Apr 18, 2007	**1.1500**	1.1500	1.1500
Series 4	Dec 2, 2010	**0.5608**	0.7554	0.9500
Class A and Class B Shares		**48.6300**	40.8100	44.2820

CAPITAL STRUCTURE

SHARE CAPITAL

The share capital of the Company at February 20, 2018 is as shown below.

Share Description	Authorized	Outstanding
Series Preferred Shares	Unlimited	7,600,000
Class A Shares	Unlimited	3,570,322
Class B Shares	Unlimited	2,188,262

All of the Class A and Class B shares are owned by Canadian Utilities Limited.

SERIES PREFERRED SHARES

An unlimited number of Series Preferred Shares are issuable in series, each series consisting of such number of shares and having such provisions attaching thereto as may be determined by the directors. The Series Preferred Shares as a class have, among others, provisions to the following effect:

i. The Series Preferred Shares are, with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Company, entitled to preference over the Class A shares and the Class B shares and any other shares of the Company ranking junior to the Series Preferred Shares. The Series Preferred Shares may also be given such other preference over the Class A shares and the Class B shares and any other junior shares as may be determined for any series authorized to be issued.

ii. The owners of the Series Preferred Shares are not entitled as such (except as provided in any series) to any voting rights nor to receive notice of or to attend share owners' meetings unless dividends on the Series Preferred Shares of any series are in arrears to the extent of eight quarterly dividends or four half-yearly dividends, as the case may be, whether or not consecutive. Until all arrears of dividends have been paid, such owners will be entitled to receive notice of and to attend all share owners' meetings at which directors are to be elected (other than separate meetings of owners of another class of shares) and to one vote in respect of each Series Preferred Share held.

iii. The class provisions attaching to the Series Preferred Shares may be amended with the written approval of all the owners of the Series Preferred Shares outstanding or by at least two-thirds of the votes cast at a meeting of the owners of such shares duly called for the purpose and at which a quorum is present.

The following Series Preferred Shares are currently outstanding.

	Stated Value	Shares	Amount ($ millions)
Series Preferred Shares:			
4.60% Series 1	$25.00	4,600,000	115
2.24% Series 4	$25.00	3,000,000	75
			190

SERIES PREFERRED SHARE REDEMPTION

Series 1 Preferred Shares

The Series 1 Preferred Shares became redeemable at the option of the Company beginning on June 1, 2012 at the stated value plus a 4 per cent premium per share for the following 12 months plus accrued and unpaid dividends. The redemption premium declined by 1 per cent in each succeeding 12-month period until June 1, 2016.

Series 4 Preferred Shares

The Series 4 Preferred Shares became redeemable at the option of the Company on June 1, 2016, and are redeemable on June 1 of every fifth year thereafter at the stated value per share plus accrued and unpaid dividends. The dividend rate will reset every five years to the then current 5-year Government of Canada bond yield plus 1.36 per cent. Owners may elect to convert any or all of their Series 4 Preferred Shares into an equal number of Cumulative Redeemable Preferred Shares Series 5 on June 1, 2021, and on June 1 of every fifth year thereafter. The dividend rate on the Series 5 Preferred Shares will be equal to the then current 3-month Government of Canada Treasury Bill yield plus 1.36 per cent. On June 1, 2026, and on June 1 of every fifth year thereafter, the Company may redeem the Series 5 Preferred Shares in whole or in part at par. The Company may redeem the Series 5 Preferred Shares in whole or in part by the payment of $25.50 for each share to be redeemed in the case of redemption on any other date.

CLASS A SHARES AND CLASS B SHARES

The owners of the Class A shares and the Class B shares are entitled to share equally, on a share for share basis, in all dividends declared by the Company on either of such classes of shares as well as the remaining property of the Company upon dissolution. The owners of the Class B shares are entitled to vote and to exchange at any time each share held for one Class A share.

If a qualifying offer to purchase Class B shares is made to all, or substantially all owners of Class B shares, and such offer is not made concurrently to owners of Class A shares, then owners of Class A shares have the ability to convert their Class A shares into Class B shares on a one-for-one basis which Class B shares will, as a result of such conversion, be automatically tendered to the offer. Any converted for Class B shares shall be automatically converted back into Class A shares on a one-for-one basis if the owner withdraws the conversion during the term of the offer or pursuant to the terms of the offer such converted for Class B shares are not taken up.

CREDIT RATINGS

Credit Ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost effective access to funds required for operations and growth.

The following table shows the current credit ratings assigned to the Company by DBRS and S&P.

	DBRS	S&P
CU Inc.		
Issuer and senior unsecured debt	A (high)	A-
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2

DBRS Limited

In July 2017, DBRS Limited (DBRS) affirmed its issuer rating of the Company as 'A (high)' with a stable trend.

Standard & Poor's

In July 2017, Standard & Poor's (S&P) revised its issuer rating of the Company from 'A' with a negative outlook to 'A-' with a stable outlook.

ISSUER CREDIT RATINGS AND LONG-TERM DEBT

An "A" issuer rating by DBRS is the third highest of 10 categories. An issuer rated "A" is of good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than "AA". A-rated issuers may be vulnerable to future events, but qualifying negative factors are considered manageable. Each rating category other than "AAA" and "D" contains the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category.

An "A" issuer rating by S&P is the third highest of 12 categories. An entity rated "A" by S&P has a strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than an entity in higher-rated categories. Ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

COMMERCIAL PAPER AND SHORT-TERM DEBT CREDIT RATINGS

An "R-1 (low)" rating by DBRS is the lowest subcategory in the highest of six categories and is granted to short-term debt of good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favourable as higher rating subcategories and may be vulnerable to future events, but qualifying negative factors are considered manageable. Rating categories "R-1" and "R-2" are further denoted by the subcategories "high", "middle", and "low".

An "A-1 (Low)" rating by S&P is the third highest of eight categories in its Canadian commercial paper ratings scale. A short-term obligation rated "A-1 (Low)" is slightly more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitments on the obligation is satisfactory.

PREFERRED SHARE CREDIT RATINGS

A “PFD-2” rating by DBRS is the second highest of six categories granted by DBRS. Preferred shares rated in this category are considered of satisfactory credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet, and coverage ratios are not as strong as “Pfd-1” rated companies. Each rating category is denoted by the subcategories “high” and “low". The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category.

A “P-2” rating by S&P is the second highest of eight categories S&P uses in its Canadian preferred share rating scale. An obligation rated “P-2” exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation. A “high” or “low” designation shows relative standing within a rating category. The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category.

CREDIT RATINGS GENERALLY

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The ratings indicate the likelihood of payment and an issuer’s capacity and willingness to meet its financial commitment on an obligation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the credit rating organization.

As is customary, the Company makes payments to the credit ratings organizations for the assignment of ratings as well as other services. The Company expects to make similar payments in the future.

MARKET FOR SECURITIES OF THE COMPANY

The Company's Cumulative Redeemable Preferred Shares Series 1 and Series 4 are listed on the Toronto Stock Exchange (TSX).

The following table sets forth the high and low prices and volume of the Company's shares traded on the TSX under the symbols CIU.PR.A for Series 1 shares and CIU.PR.C for Series 4 shares, during 2017.

			Series 1			Series 4
2017	**High ($)**	**Low ($)**	**Volume**	**High ($)**	**Low ($)**	**Volume**
January	22.51	21.73	31,751	14.80	13.65	23,121
February	22.45	21.99	34,018	15.00	14.35	35,959
March	22.65	22.24	42,991	15.00	14.48	25,872
April	23.36	22.76	82,595	15.35	14.98	12,875
May	23.30	22.58	46,970	15.85	14.98	19,657
June	23.18	22.67	20,905	16.10	15.18	31,109
July	22.75	22.29	5,425	16.50	16.00	34,756
August	22.58	22.05	10,265	16.35	15.90	56,546
September	22.10	21.35	56,820	16.30	16.13	19,500
October	22.40	21.65	34,615	16.45	16.23	70,655
November	22.53	22.01	92,570	16.46	16.20	100,000
December	22.15	21.80	55,087	16.56	15.90	37,620

DIRECTORS AND OFFICERS

DIRECTORS [1]

Name, Province or State and Country of Residence	Position	Position Held and Principal Occupation	Director Since
R.T. Booth [2] Alberta, Canada	Director	Partner, Bennett Jones LLP	2014
L.M. Charlton [2] Alberta, Canada	Director	Vice President & Chief Financial Officer, Lintus Resources Limited	2008
S.W. Kiefer Alberta, Canada	Director	Chief Strategy Officer, ATCO Ltd. & Canadian Utilities Limited and President, Canadian Utilities Limited	2011
N.C. Southern Alberta, Canada	Chair & Director	Chair, President & Chief Executive Officer, ATCO Ltd. and Chair & Chief Executive Officer, Canadian Utilities Limited	1999
L.A. Southern-Heathcott Alberta, Canada	Vice Chair & Director	President & Chief Executive Officer of Spruce Meadows Ltd.	2017
R.J. Urwin, PhD, C.B.E. [2] London, England	Director	Corporate Director	2008

(1) All directors hold office until their successors are elected on an annual basis.

(2) Member of the Audit Committee.

OFFICERS (IN ALPHABETICAL ORDER)

Name, Province or State and Country of Residence	Position Held	Principal Occupation
D.A. DeChamplain Alberta, Canada	Senior Vice President & Chief Financial Officer	Senior Vice President & Chief Financial Officer Canadian Utilities Limited and ATCO Ltd.
C. Gear Alberta, Canada	Corporate Secretary	Corporate Secretary Canadian Utilities Limited and ATCO Ltd.
S.W. Kiefer Alberta, Canada	Chief Strategy Officer & President	Chief Strategy Officer & President, Canadian Utilities Limited and Chief Strategy Officer, ATCO Ltd.
K.J. Patrick Alberta, Canada	Vice President, Finance & Risk	Vice President, Finance & Risk Canadian Utilities Limited and ATCO Ltd.
N.C. Southern Alberta, Canada	Chair & Chief Executive Officer	Chair & Chief Executive Officer, Canadian Utilities Limited and Chair, President & Chief Executive Officer, ATCO Ltd.

POSITIONS HELD BY OFFICERS WITHIN PRECEDING FIVE YEARS

All of the directors and officers have been engaged for the last five years in the indicated principal occupations, or in other capacities with the companies or firms referred to, or with affiliates or predecessors, except for Ms. Patrick. Ms. Patrick has held several senior management roles specializing in strategy and finance, including her recent positions as Senior Director, Mergers & Acquisitions and Strategic Development at ATCO Group, and Director, Mergers & Acquisitions and Senior Manager and Economist, Corporate Strategy and Development, at Bunge Limited.

DIRECTORS' AND OFFICERS' INTEREST IN THE COMPANY

At December 31, 2017, none of the Company's directors and officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, by corporate holdings or otherwise, any of the outstanding Class B shares of the Company.

EXECUTIVE COMPENSATION

Refer to Appendix 1 for the Compensation Discussion and Analysis.

DIRECTORS' COMPENSATION

In 2017, non-employee directors of the Company were paid an annual retainer of $5,000 for acting as directors and $1,500 for attending each full meeting of the Board, or $800 if meetings were brief.

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

Since January 1, 2017, there has been no indebtedness outstanding to the Company from any of its directors, executive officers, senior officers or associates of any such directors, nominees or senior officers.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of the Company, person or company that beneficially owns, or controls or directs, directly or indirectly, greater than ten per cent of the Company's Class B voting Common shares, nor any associate or affiliate of the foregoing, has, or has had, any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

CORPORATE CEASE TRADE ORDERS, BANKRUPTCIES OR SANCTIONS

Corporate Cease Trade Orders

Except as otherwise disclosed herein, no director, executive officer or controlling security holder of the Company is, as at the date of this AIF, or has been, within the past ten years before the date hereof, a director or executive officer of any other issuer that, while that person was acting in that capacity:

i. was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or

ii. was subject to an event that resulted, after the person ceased to be a director or executive officer, in the Company being the subject of a cease trade or similar order or an order that denied the relevant company access to an exemption under securities legislation for a period of more than 30 consecutive days; or

iii. within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Personal Bankruptcies

No director, executive officer or controlling security holder of the Company has, within the years before the date hereof, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

Penalties or Sanctions

No current director, executive officer or controlling security holder of the Company has:

i. been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, other than penalties for late filing of insider reports; or

ii. been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

Circumstances may arise where members of the Board serve as directors or officers of corporations which are in competition to the interests of the Company. No assurances can be given that opportunities identified by any such member of the Board will be provided to the Company. However, the Company's procedures provide that each director and executive officer must comply with the disclosure requirements of the Canada Business Corporations Act (CBCA) regarding any material interest. If a declaration of material interest is made, the declaring director shall not vote on the matter if put to a vote of the Board. In addition, the declaring director and executive officer may be requested to recuse himself or herself from the meeting when such matter is being discussed.

VOTING SECURITIES AND PRINCIPAL HOLDER THEREOF

The Company has 2,188,262 Class B shares outstanding, all of which are owned by Canadian Utilities. ATCO, directly or indirectly, owns approximately 89.5 per cent of the voting securities of Canadian Utilities. The Southern family controls ATCO.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Cumulative Redeemable Preferred Shares Series 1 and Series 4 is AST Trust Company (Canada) at its principal offices in Calgary and Toronto.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is occasionally named as a party in claims and legal proceedings which arise during the normal course of its business. The Company reviews each of these claims, including the nature of the claim, the amount in dispute or claimed and the availability of insurance coverage. There can be no assurance that any particular claim will be resolved in the Company's favour or that such claim may not have a material adverse effect on the Company. For further information, please refer to Note 21 of our audited consolidated financial statements for the year ended December 31, 2017

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business (unless otherwise required by applicable securities requirements to be disclosed), there were no material contracts entered into by the Company or its subsidiaries during the most recently completed financial year, or before the most recently completed financial year that are still in effect.

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP has prepared the auditor’s report for the Company’s annual consolidated financial statements. PricewaterhouseCoopers LLP is independent in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

NON-GAAP AND ADDITIONAL GAAP MEASURES

Adjusted earnings are defined as earnings for the period after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings for the year is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 3 of the 2017 Consolidated Financial Statements.

FORWARD-LOOKING INFORMATION

Certain statements contained in this AIF constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate," "plan," "estimate," "expect," "may," "will," "intend," "should," and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com.

Additional financial information is provided in the Company's consolidated financial statements and MD&A for the financial year ended December 31, 2017.

Information relating to ATCO or Canadian Utilities may be obtained on request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street SW, Calgary, Alberta, T3E 8B4, or by telephone (403) 292-7500 or fax (403) 292-7532. Corporate information is also available on ATCO's website: www.atco.com and Canadian Utilities' website: www.canadianutilities.com.

GLOSSARY

AESO means the Alberta Electric System Operator.

AEY means ATCO Electric Yukon.

AGP means ATCO Gas and Pipelines Ltd.

ATCO means ATCO Ltd. and its subsidairies.

ATCO Electric means ATCO Electric Ltd.

ATCO Gas means the natural gas distribution division of AGP.

ATCO Pipelines means the natural gas transmission division of AGP.

AUC means the Alberta Utilities Commission.

Board means CU Inc.'s Board of Directors.

Canadian Utilities means Canadian Utilities Limited.

Class A shares means Class A non-voting shares of the Company.

Class B shares means Class B common shares of the Company.

Company means CU Inc. and, unless the context otherwise requires, includes its subsidiaries.

Earnings means Adjusted Earnings as defined in the Non-GAAP and Additional GAAP Measures section of this MD&A.

EUA means the Electric Utilities Act (Alberta).

GAAP means Canadian generally accepted accounting principles.

IFRS means International Financial Reporting Standards.

MD&A means the Company's Management's Discussion and Analysis for the year ended December 31, 2017.

NEB means National Energy Board.

NGTL means NOVA Gas Transmission Ltd.

NUY means Northland Utilities (Yellowknife) Limited.

NWT means Northland Utilities (NWT) Limited.

REA means Rural Electrification Association. REAs are constituted under the Rural Utilities Act (Alberta) by groups of persons carrying on farming operations. Each REA purchases electric power for distribution to its members through a distribution system owned by that REA.

ROE means Return on Equity.

Utilities means ATCO Electric Distribution, ATCO Electric Transmission, ATCO Gas and ATCO Pipelines.

APPENDIX 1

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (CD&A) discusses the Company's executive compensation program, and how it is structured, governed, and designed to support the corporate business objectives.

This CD&A discloses compensation of the Chief Executive Officer, Chief Financial Officer and the next three executives that received the highest pay as of December 31, 2017 (the named executives):

- Nancy C. Southern, Chair & Chief Executive Officer (CEO);
- Dennis A. DeChamplain, Senior Vice President & Chief Financial Officer (CFO);
- Siegfried W. Kiefer, Chief Strategy Officer, ATCO & Canadian Utilities and President, Canadian Utilities;
- George J. Lidgett, Managing Director, Pipelines & Liquids Global Business Unit;
- Wayne K. Stensby, Managing Director, Electricity Global Business Unit; and
- Brian R. Bale, Special Advisor to the CEO & Senior Vice President, IT and Real Estate.

Brian R. Bale held the position of Senior Vice President & Chief Financial Officer until his retirement on May 31, 2017. He rejoined the organization in the role of Special Advisor to the CEO & Senior Vice President, IT and Real Estate on June 1, 2017. Dennis A. DeChamplain was appointed Senior Vice President & Chief Financial Officer effective June 1, 2017. Mr. DeChamplain was previously Senior Financial Officer for the Electricity Global Business Unit.

In 2017, all of the named executives had multiple roles for CU Inc., Canadian Utilities, and ATCO, the Company's ultimate parent company. The exceptions were Dennis A. DeChamplain (for the portion of the year where he was in the Senior Financial Officer role) and George J. Lidgett and Wayne K. Stensby.

Every year, the Company apportions compensation for executives with multiple roles based on each company's contribution to revenues, labour expenses and total assets. This allocation method, which has been approved by the AUC, represents an estimate of the amount of time the Company expects the executives will devote to each entity.

Throughout this CD&A, when we refer to senior executives, the Company means the CEO and her direct reports (only some of whom are named executives).

The table below shows how CU Inc., Canadian Utilities and ATCO have shared the compensation expense of executives with multiple roles over the past three years:

	Amount paid and reported by CU Inc. (%)	Amount paid by Canadian Utilities (%)	Amount paid by ATCO (%)	Combined total reported by ATCO (%)
2017	**72.7**	**15.4**	**11.9**	**100**
2016	68.8	18.0	13.2	100
2015	63.2	24.4	12.4	100

EXECUTIVE COMPENSATION PROGRAM ELEMENTS

The Company's executive compensation program includes direct and indirect compensation. Direct compensation is made up of:

- Fixed compensation (base salary); and
- Variable compensation (short, mid and long-term incentives).

Indirect compensation includes a pension plan and other benefits.

Discretionary incentives may also be awarded to senior executives for their contribution to particularly notable accomplishments.

Total direct compensation is targeted at the median (50th percentile) of the comparative group. Pay mix varies from year to year. The target ranges depend on the executive's responsibilities and ability to influence business results. The actual pay mix depends on corporate, Business Unit and individual performance. This mix provides a competitive total direct compensation package while ensuring that a significant portion of each executive’s compensation is performance-based, and therefore, pay at risk.

FIXED COMPENSATION

Base salaries are targeted at the median (50th percentile) of the comparator group, and can be up to the 75th percentile for executives who consistently perform above the role's expectations.

VARIABLE COMPENSATION

Variable compensation makes up a significant portion of each senior executive's total compensation. Awards and payouts are tied to corporate, Business Unit and individual performance.

Nancy C. Southern

Chair & Chief Executive Officer
Age: 61
Location: Calgary, Canada
Years of Service: 28

Ms. Southern is Chair & Chief Executive Officer of CU Inc., and has full responsibility for the company's strategic direction and operations. She reports to the Board of Directors and had been a director of CU Inc. since 1989.

Under Ms. Southern's guidance, earnings have increased from $163 million in 2007 to Adjusted Earnings of $542 million in 2017. CU Inc.'s total assets have grown from $5 billion in 2007 to approximately $16 billion in 2017.

	2017	2016	2015
Cash			
Base salary	**727,000**	688,000	632,000
Short-term incentive	**727,000**	1,100,800	0
Total direct compensation	**1,454,000**	1,788,800	632,000

EMPLOYMENT AGREEMENT

Ms. Southern has an employment agreement with Canadian Utilities that is reviewed and approved on an annual basis. It is currently extended to February 28, 2019. The agreement includes insurance benefits if Ms. Southern dies or becomes disabled before she retires or her employment is terminated. That insurance is based on her salary, using formulas that take into account the amounts payable to her under the group life insurance policies and disability income programs. It also includes supplemental pension benefits.

Dennis A. DeChamplain

Senior Vice President & Chief Financial Officer
Age: 54
Location: Calgary, Canada
Years of Service: 25

Mr. DeChamplain is Senior Vice President & Chief Financial Officer of CU Inc., Canadian Utilities and ATCO. He is responsible for Finance, Accounting, Treasury, Taxation, Regulatory Strategy, Pension & Risk Management and the administration of Internal Audit. He joined ATCO in 1992 and has held progressively senior roles in ATCO and Canadian Utilities. He was appointed to his current role on June 1, 2017.

	2017	2016	2015
Cash			
Base salary	**262,365**	248,000	245,000
Short-term incentive	**132,548**	144,000	80,000
Total direct compensation	**394,913**	392,000	325,000

Siegfried W. Kiefer

Chief Strategy Officer, ATCO & Canadian Utilities & President, Canadian Utilities
Age: 59
Location: Calgary, Canada
Years of Service: 35

Mr. Kiefer is Chief Strategy Officer, ATCO and Canadian Utilities Limited, and President, Canadian Utilities Limited. He is responsible for recommending and executing strategic initiatives that ensure the Corporation's profitable growth and achievement of its business objectives. He joined ATCO in 1983 and has held progressively senior roles in ATCO and Canadian Utilities. He was appointed to his current role in 2016.

	2017	**2016**	**2015**
Cash			
Base salary	**574,330**	522,880	480,320
Short-term incentive	**272,625**	412,800	158,000
Total direct compensation	**846,955**	935,680	638,320

George J. Lidgett

Managing Director, Pipelines & Liquids Global Business Unit
Age: 56
Location: Calgary, Canada
Years of Service: 32

Mr. Lidgett is Managing Director of the Pipelines & Liquids Global Business Unit of ATCO and Canadian Utilities which encompasses gas distribution, gas transmission and storage and liquids. Mr. Lidgett is tasked with leading the strategy and development for the Business Unit's long-term products and services growth. He joined ATCO in 1985 and has held a number of senior operational and commercial management roles during his tenure. He was appointed to his current role in 2015.

	2017	**2016**	**2015**
Cash			
Base salary	**410,363**	373,500	246,750
Short-term incentive	**255,750**	405,000	0
Total direct compensation	**666,113**	778,500	246,750

Wayne K. Stensby

Managing Director, Electricity Global Business Unit
Age: 51
Location: Calgary, Canada
Years of Service: 29

Mr. Stensby is Managing Director of the Electricity Global Business Unit of ATCO and Canadian Utilities which encompasses electricity generation, transmission and distribution. Mr. Stensby is tasked with leading the strategy and development for the Business Unit's long-term products and services growth. He joined ATCO in 1988 and has held a number of senior operational and engineering management roles during his tenure. He was appointed to his current role in 2015.

	2017	2016	2015
Cash			
Base salary	**354,000**	329,000	182,889
Short-term incentive	**160,000**	320,000	80,000
Total direct compensation	**514,000**	649,000	262,889

Brian R. Bale

Special Advisor to the CEO and Senior Vice President, IT and Real Estate
Age: 63
Location: Calgary, Canada
Years of Service: 36

Mr. Bale held the position of Senior Vice President & Chief Financial Officer of ATCO and Canadian Utilities until his retirement on May 31, 2017. He rejoined the organization in the role of Special Advisor to the CEO & Senior Vice President, IT and Real Estate on June 1, 2017. He joined ATCO Gas in 1981 and held progressively senior roles in ATCO and Canadian Utilities.

	2017	2016	2015
Cash			
Base salary	**304,431**	430,000	387,100
Short-term incentive	-	412,800	189,600
Total direct compensation	**304,431**	842,800	576,700

2017 COMPENSATION DETAILS

Summary Compensation Table

The table below summarizes the total compensation of each of the named executives received or awarded for the years ended December 31, 2015, 2016 and 2017.

				Non-equity incentive plan compensation[1]				
	Salary[1]	Share based awards	Option based awards	Annual incentive plans	Long term incentive plans	Pension value[2]	All Other Compensation[3]	Total Compensation
Nancy C. Southern								
Chair & Chief Executive Officer								
2017	**727,000**	-	-	**727,000**	-	**1,752,389**	**25,445**	**3,231,834**
2016	688,000	-	-	1,100,800	-	715,086	24,080	2,527,966
2015	632,000	-	-	-	-	437,793	22,120	1,091,913
Dennis A. DeChamplain								
Senior Vice President & Chief Financial Officer								
2017	**262,365**	-	-	**132,548**	-	**19,856**	-	**414,769**
2016	248,000	-	-	144,000	-	20,808	1,157	413,965
2015	245,000	-	-	80,000	-	20,296	6,860	352,156
Siegfried W. Kiefer								
Chief Strategy Officer, ATCO & Canadian Utilities, & President, Canadian Utilities								
2017	**574,330**	-	-	**272,625**	-	**279,926**	**20,102**	**1,146,983**
2016	522,880	-	-	412,800	-	220,029	18,301	1,174,010
2015	480,320	-	-	158,000	-	131,050	16,811	786,181
George J. Lidgett								
Managing Director, Pipelines & Liquids Global Business Unit								
2017	**410,363**	-	-	**255,750**	-	**3,528,193**	**2,354**	**4,196,660**
2016	373,500	-	-	405,000	-	58,793	-	837,293
2015 [4]	246,750	-	-	-	-	38,281	-	285,031
Wayne K. Stensby								
Managing Director, Electricity Global Business Unit								
2017	**354,000**	-	-	**160,000**	-	**329,655**	**12,390**	**856,045**
2016	329,000	-	-	320,000	-	2,105,510	11,515	2,766,025
2015 [4]	182,889	-	-	80,000	-	13,482	22,445 [5]	298,816
Brian R. Bale								
Special Advisor to the CEO & Senior Vice President, IT and Real Estate (Former Senior Vice President & Chief Financial Officer)								
2017 [6]	**304,431**	-	-	-	-	**95,922**	**6,944**	**407,297**
2016	430,000	-	-	412,800	-	177,276	15,050	1,035,126
2015	387,100	-	-	189,600	-	188,875	13,549	779,124

(1) Compensation figures shown for all named executives are the amounts that have been apportioned to and paid by the Company. All of the Company's executives have had multiple roles for CU Inc., Canadian Utilities, and ATCO, the Company's parent company, over the past three years. The exceptions are Dennis A. DeChamplain (for the portion of the year where he was in the Senior Financial Officer role) and George J. Lidgett and Wayne K. Stensby. The table below shows how the compensation expense for executives with multiple roles has been shared over the past three years.

	Amount paid and reported by CU Inc. (%)	Amount paid by Canadian Utilities (%)	Amount paid by ATCO (%)	Combined total reported by ATCO (%)
2017	72.7	15.4	11.9	100
2016	68.8	18.0	13.2	100
2015	63.2	24.4	12.4	100

(2) Estimated using a prescribed formula based on several assumptions. Also includes other compensatory items. George J. Lidgett and Wayne K. Stensby joined the supplemental pension plan for all service, effective 2017 and 2016 respectively.

(3) Employer contribution to the Employee Share Purchase Plan.

(4) Not all costs were charged to CU Inc. during this time period.

(5) Includes expatriate allowances.

(6) Mr. Bale retired as Senior Vice President & Chief Financial Officer on May 31, 2017. He rejoined the organization in the role of Special Advisor to the CEO & Senior Vice President, IT and Real Estate on June 1, 2017. The information reported in the summary compensation table is reflective of compensation received for both roles in 2017.

PENSION PLAN

The named executives participate in the Retirement Plan for Employees of Canadian Utilities Limited and Participating Companies (CU plan), which has both a defined benefit (DB) and defined contribution (DC) component. All named executives except except Dennis A. DeChamplain and Wayne K. Stensby participate in the DB component.

How the DB component works:

- Executives do not contribute to the plan;
- Participants can retire with full benefits when they turn 62, or if their age plus their years of service equals 90 or more. They can retire as early as age 55. However, if they have not achieved 90 points, their pension benefit is reduced by 3 per cent for every year of retirement before age 62, and by another 3 per cent for every year before age 60;
- Pension benefits are paid until the participant dies; then, 60 per cent is paid to the surviving spouse; and
- Retiree benefit payments have historically been increased annually with inflation, to a maximum of 3 per cent.

How we calculate the pension benefit:

[1.4% X average year's maximum pensionable earnings ($53,480 in 2017) + 2% X average salary (highest five consecutive years of base salary, not including short-term incentive) *minus* $53,480] X Years of service

Dennis A. DeChamplain and Wayne K. Stensby participate in the DC component.

How the DC component works:

- Executives do not contribute to the plan;
- The Company contributes 10 per cent of base salary up to the maximum permitted by the Income Tax Act ($26,230 in 2017); and
- Participants are responsible for the investment decisions in the DC plan and may invest contributions in a broad selection of funds.

SUPPLEMENTAL PENSION BENEFITS

Pension benefits under the CU plan are subject to limits imposed by the Income Tax Act (Canada). Benefits that are higher than these limits are paid to each of the named executives except Dennis A. DeChamplain participating in the CU plan as a supplemental pension. This supplemental pension is provided by Canadian Utilities and benefits are not pre-funded.

How it works:

- Supplemental pension benefits are provided as a defined benefit plan;
- Executives do not contribute to the supplemental plan;
- Service is limited to 35 years; and
- Supplemental benefits are not paid if the named executive is terminated or dies before age 55.

Ms. Southern's supplemental pension benefit is part of her employment agreement. Her benefits are calculated as 80 per cent of the average of the highest five years of cash compensation (salary and short-term incentives) during her last 10 years before retirement.

Ms. Southern's pension is inclusive of the benefit under the CU plan. Benefits are paid on the same terms as the CU plan, with the same survivor benefits and top-up for inflation.

DEFINED BENEFIT

The table below shows the pension benefits and accrued obligations under all registered pension plans and supplemental arrangements for each of the named executives.

		Annual Benefits Payable ($)					
	Number of years credited service	At year end	At age 65	Opening present value of defined benefit obligation ($)	Compensatory Change ($)	Non Compensatory Change ($)	Closing present value of defined benefit obligation ($)
Nancy C. Southern	22.00	1,442,368	1,442,368	16,191,667	1,752,389	2,743,905	20,687,961
Siegfried W. Kiefer	34.00	365,681	376,436	7,790,012	279,926	1,131,662	9,201,600
George J. Lidgett	32.17	162,797	251,257	1,974,954	3,528,193	550,529	6,053,676
Wayne K. Stensby	28.08	93,947	113,013	2,640,531	308,671	371,493	3,320,695
Brian R. Bale	35.42	263,021	N/A	5,636,655	95,922	648,620	6,381,197

Number of years of credited service is the time the executive has been a member of the pension plan, and is used to calculate the pension.

Annual benefits payable at year end is based on the defined benefit credited service and actual average pensionable earnings at December 31, 2017. The benefits are reduced if a named executive is eligible for early retirement.

Annual benefits payable at age 65 is based on actual average pensionable earnings at December 31, 2017, and their projected service at age 65, to a maximum of 35 years.

The Company calculates the accrued pension obligation using the method prescribed by International Financial Reporting Standards and based on management's best estimate of future events that affect the cost of pensions, including assumptions about adjustments to base salary in the future.

The compensatory change includes the service cost, differences between actual and estimated earnings, the impact of plan amendments and past service benefits.

The non-compensatory change includes interest on the obligation, the impact of assumption changes, and the impact of changing the CU Inc. allocation from 68.8 per cent in 2016 to 72.7 per cent in 2017. See Note 11, Retirement Benefits, in the Company's consolidated financial statements for the year ended December 31, 2017, for more information about the methods and assumptions used to calculate accrued obligations.

DEFINED CONTRIBUTION

The table below shows the defined contribution disclosure for the named executives.

	Accumulated value at start of year	Compensatory ($)	Accumulated value at year end ($)
Dennis A. DeChamplain	502,292	19,856	518,645
Wayne K. Stensby	413,942	20,984	482,854

The compensatory amount is the Company's contribution. Participants are responsible for their investments and may invest contributions in a broad selection of funds.

TERMINATION AND CHANGE OF CONTROL

Termination of employment of an executive is subject to applicable legislation and common law provisions as there are no employment agreements in place for the named executives, except for Ms. Southern. The table below shows how a change in employment status affects the different compensation components.

The Company considers there to be a change of control when holders of more than 50 per cent of Canadian Utilities Class B common shares accept an offer for any portion or all of the shares. This change can be by way of a takeover bid or some other means, as long as it is not the result of a transaction to convert Canadian Utilities to a trust with our shareholders owning more than 50 per cent of the voting securities of the trust.

The Company's employment agreement with Ms. Southern, the Chair & Chief Executive Officer, outlines the following:

Retirement

- Salary ends.
- Retiring allowance is based on years of service to a maximum of one month's salary.
- Retiree health benefits coverage starts when she retires, and continues until six months after the pensioner dies.
- Annual incentive bonus is paid on a pro rata basis to the retirement date.
- All vested options and share appreciation rights can be exercised within 24 months of the retirement date, or on the expiry date if earlier.
- All unvested options, share appreciation rights and mid-term incentive plan awards are forfeited on the retirement date.
- Pension benefits are provided based on membership in the plan.

Resignation

- All salary and benefits end.
- Annual incentive bonus for the current year is forfeited.
- All vested options and share appreciation rights can be exercised within 90 days of the resignation date, or on the expiry date if earlier.
- All unvested options, share appreciation rights and mid-term incentive plan awards are forfeited on the resignation date.
- Pension is paid as a commuted value or deferred benefit.

Termination

- All salary and benefits end.
- Annual incentive bonus for the current year is forfeited.
- All vested options and share appreciation rights can be exercised within 90 days of the termination date, or on the expiry date if earlier.
- All unvested options, share appreciation rights and mid-term incentive plan awards are forfeited on the termination date.
- Pension is paid as a commuted value or deferred benefit.
- If applicable, severance is provided based on employment standards and common law provisions.

Change of Control

- No changes are made to salary, incentives or benefits.
- All vested options and share appreciation rights can be exercised within 90 days of a change of control, or on the expiry date, if earlier.
- All unvested options and share appreciation rights are accelerated and can be exercised within 90 days of a change of control date, or on the expiry date, if earlier.
- All unvested mid-term incentive plan awards vest on the date immediately preceding the change of control.